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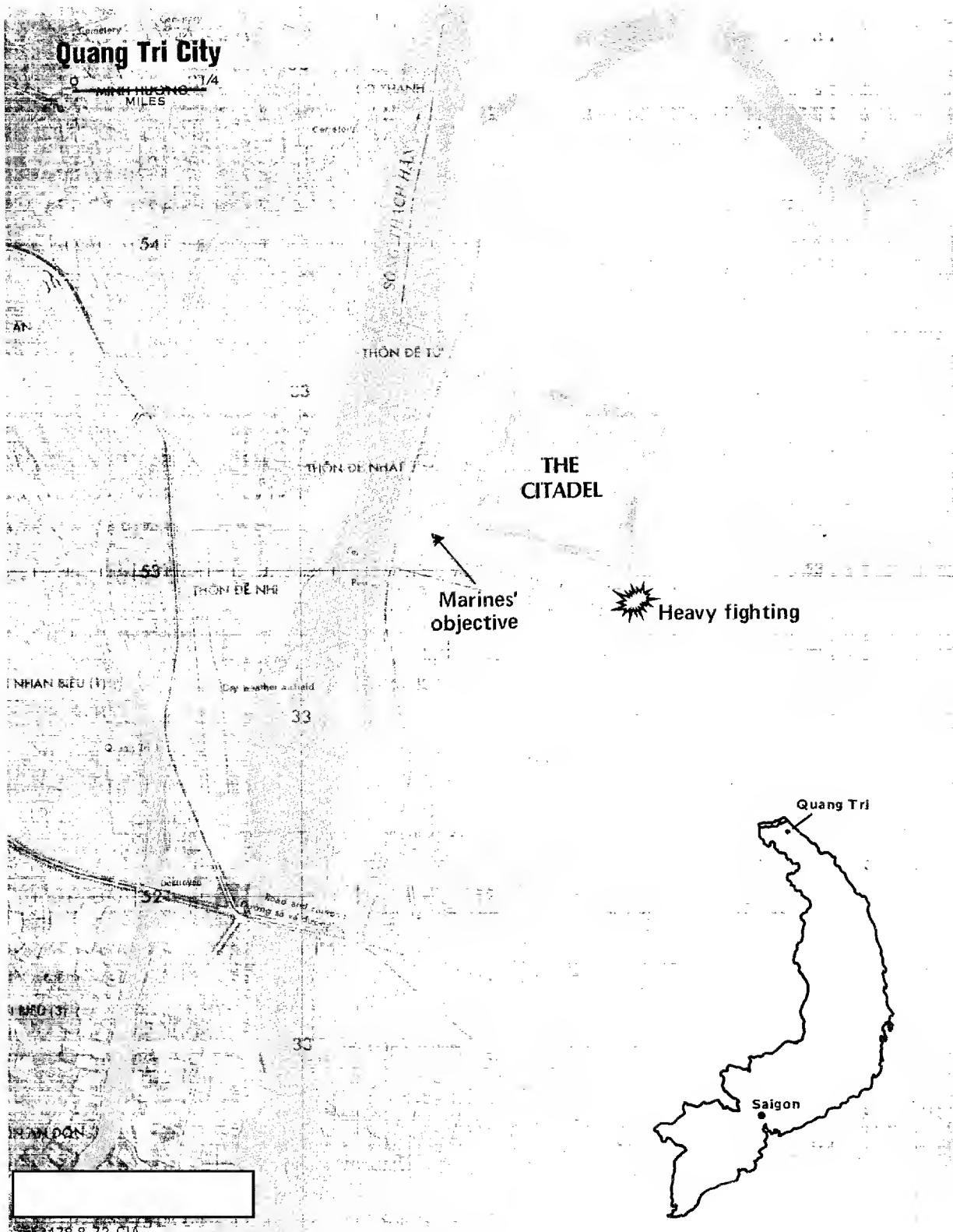
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SOUTH VIETNAM: Heavy fighting has erupted in the Quang Tri City area as government forces are nearing the Communist-held citadel.

South Vietnamese Marines engaged in sharp street fighting near the southern side of the citadel on 16 August and moved against a well-entrenched enemy force defending the western side of the fortress.

South of Quang Tri City, South Vietnamese paratroopers fought a day-long battle less than five miles from the citadel. Heavy Communist artillery and mortar fire against government positions was reported throughout the area. Casualties on both sides were moderate, although apparently the heaviest suffered in some time by the South Vietnamese paratroop units south of Quang Tri City.

The recent identification of troops from the North Vietnamese 308th Division in the city indicates that the Communists have committed elements of four infantry divisions--the 312th, 320B, 325th, as well as the 308th--to its defense. In addition, Hanoi's 304th Division is located not far south of the city.

Scattered fighting continues throughout the southern provinces, but no new major ground action has been reported. A cache of SA-7 hand-held surface-to-air missiles along with some AT-3 wire-guided antitank missiles was uncovered in Dinh Tuong Province on 15 August, another sign of Communist preparations for increased activity in the northern delta.

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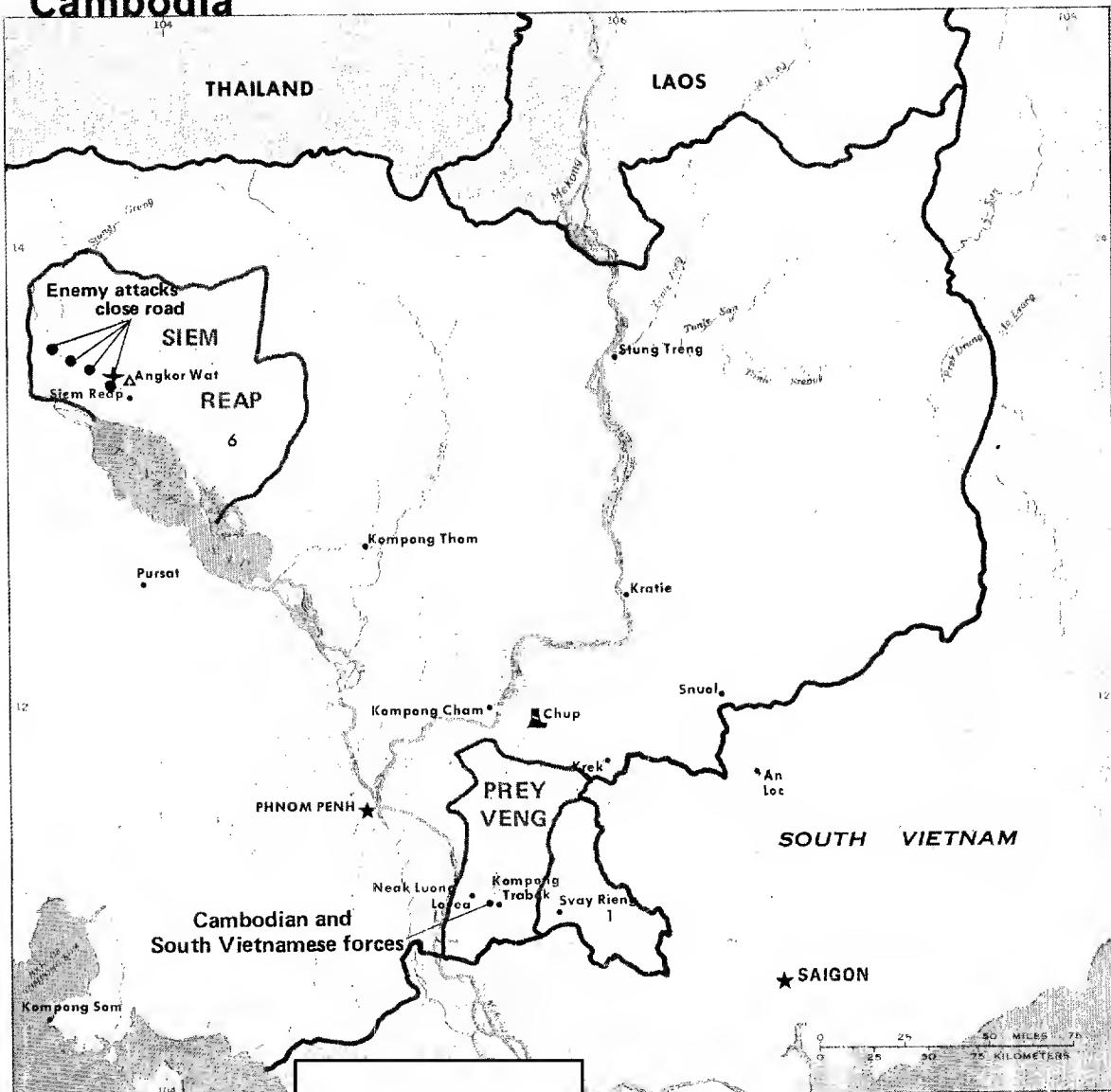
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Cambodia



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CAMBODIA: The government operation to regain control over a part of Route 1 is making little headway.

Cambodian and South Vietnamese forces tasked with retaking Kompong Trabek have not made any significant advance since the beginning of the week, when they were halted by sharp enemy resistance near the village of Lovea. At last report, the Cambodians were considering moving a paratroop brigade well south of Route 1 to bypass enemy blocking positions.

The five government battalions forced out of Kompong Trabek on 6 August are still pinned down on the town's outskirts by sporadic enemy infantry and tank attacks. Morale is still high in the encircled units, however, despite enemy pressure, supply shortages, and the inability to evacuate the wounded.

The Communists appear to be paying a fairly heavy price to keep their hold over the Kompong Trabek area. In the first week of the fighting, the Cambodians estimate that heavy allied air strikes and artillery barrages have destroyed as many as 24 enemy armored vehicles.

In the northwest, the military situation around the Angkor Wat temple complex seems to have stabilized, following a series of Communist attacks against scattered government positions late last week. The recapture of a key hilltop in the ruins has enabled the Communists to direct harassing fire on the nearby Siem Reap airfield, closing it to all traffic. Enemy attacks and mining incidents along Route 6 west of Siem Reap have closed a sizable stretch of that highway and further isolated the town.

Demoralized government troops at Siem Reap are now being regrouped and reorganized. Although government forces probably outnumber the Communists, the local commander has indicated that he is unwilling to undertake any new offensive operations unless he receives reinforcements. Phnom Penh has thus far been reluctant to send additional troops. [redacted]

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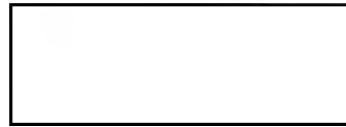
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AUSTRALIA: The new budget presented this week is designed both to stimulate the economy and to bolster the ruling party's position in the elections expected this fall.

The government hopes that the budget will have wide electoral appeal, largely because of a personal income tax cut of about ten percent. The reduction is designed to increase consumer spending which, in turn, will stimulate domestic investment. In addition, gift and estate taxes have been eased and pension benefits increased. Canberra also hopes that the increase in take-home pay will reduce the demand for higher wages, thus easing inflationary pressures.

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During the 1950s and most of the 1960s, the Australian economy grew steadily at about five percent annually. The mining boom in the late 1960s and the large inflow of foreign private capital pushed the real growth rate to some six percent. For the last year, however, rising inflation, a relatively high rate of unemployment, and a loss of consumer and business confidence slowed Australia's growth to only three percent.

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SRI LANKA (CEYLON): A confrontation may be shaping up between the government and an important labor union.

[redacted] the country's main bank employees union is planning to call its 6,000 members out on strike sometime during the last ten days in August if no progress has been made in getting the government to agree to wage demands. [redacted] the cabinet has resolved to break the strike. Under existing emergency legislation, the government can outlaw the strike by declaring the banks an essential service.

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Many Ceylonese unions are affiliated with the two Marxist political parties that are junior partners in Prime Minister Bandaranaike's three-party coalition government. Nonetheless, there is widespread unhappiness among rank-and-file workers over the consumer goods shortages, inflation, and unemployment that have been plaguing the economy during the 27 months Mrs. Bandaranaike has been in office. The bank employees union, whose top leadership is not allied to the government, appears willing to engage in militant action. Despite the growing restiveness among workers, the government so far has been able to prevent serious labor disruptions. If the bank strike materializes, the authorities are probably capable of breaking it, but at the cost of further erosion of government influence over the trade union movement and increased friction among coalition parties.

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NOTES

WEST GERMANY: Increasing inflationary pressures may hurt the SPD-FDP coalition in parliamentary elections later this year. The economy has recovered from the 1971 slowdown: real gross national product grew by two percent in the first half of this year and is likely to rise at double that rate during the second half. This gain, however, probably will be overshadowed by the renewed acceleration in the cost of living, which was 5.6 percent higher in July than in the same month last year. Rapidly shrinking reserves of industrial capacity and a tight labor market threaten even larger price increases during the coming months. The opposition CDU/CSU parties will exploit as a major campaign issue the government's inability to halt the inflation.

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BOLIVIA: President Banzer may announce some cabinet changes this weekend, the first anniversary of the coup that brought him to power. Banzer is known to be dissatisfied with several of his ministers, and he may wish to bring more reliable people into the government. Any changes, however, probably will maintain the general balance among the military and the two civilian political parties that compose his coalition. The transfers of several military officers who have criticized the government may also be announced in the hope of burying them under the news of the anniversary celebrations. Moving these critics will blunt their efforts, at least for awhile, but opposition can be expected to increase unless Banzer displays a firmer hand in running the government than he has recently.

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